



As reprinted from 01/22/2008

Treasurer: State is emptying its kitty

PHOENIX - Arizona's cash to pay its bills will dry up sometime in late May without legislative action, state Treasurer Dean Martin warned Tuesday.

Martin said at the rate the dollars are going "out the door," the entire \$9.6 billion that legislative staffers predict the state will collect this fiscal year will be gone more than a month before it actually ends.

That's because state agencies were authorized to spend \$10.6 billion under the assumption - now disproved - that tax collections would reach that much.

He said if nothing changes, the state could end up issuing what essentially are bad checks for routine expenses, including payroll, as the state does not have what otherwise might be called "overdraft protection."

"We don't have any agreements with the local banks to say they'll just kind of cover us for a few days or a week or whatever," Martin said.

"There's no contract or anything. We couldn't create one if we wanted to."

Martin's report comes as lawmakers began a week of all-day hearings to try to fix the mess - and do it before the cash runs out.

The treasurer said at least some of the problem could be solved simply by giving him permission to spend more than the tax dollars he is collecting. That's because the state does have extra cash, including close to \$700 million in its "rainy day" fund and more than \$100 million in various other special funds.

"But without a legislative budget bill being passed, we don't have the authority to tap into that," he said.

Both Gov. Janet Napolitano and key Republican legislators both propose to dip into that rainy day fund to resolve this year's deficit. But the GOP plan also proposes severe and immediate spending cuts; the governor hopes to make up much of the gap by borrowing nearly \$400 million for school construction costs this fiscal year rather than paying cash.

Martin also said there is no evidence that the pace of state spending has slowed despite statements by the governor that she directed agency chiefs back in July to start cutting expenses. He said the state spent 47 percent of its budget in the first six months of the fiscal year - the same figure he said has been the state's average.

Gubernatorial press aide Jeanine L'Ecuyer said spending has been trimmed. And she said she "really would question" what Martin is saying, suggesting political motives behind the figures.

"He wants to be governor really bad," she said of the Phoenix Republican.

But Martin said the spending numbers are accurate. What happens if budget negotiations falter and the kitty runs dry is less than clear.

Martin said the state could stop paying its non-automatic bills, essentially leaving some suppliers and others stranded unless and until lawmakers find the cash.

More problematic, he said, are checks written for routine expenses, particularly payroll checks. He said these go out automatically.

But since the state has no "overdraft protection" plan with its servicing bank, that bank may refuse to honor them.

By Howard Fischer

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